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DOMESTIC ISSUES

GROWTH AND EQUITY IN DEVELOPING ECONOMIES

by Ronald Soligo

INTRODUCTION

Economists have generally relegated a concern for the personal distribution of income and wealth to a quite separate and isolated place within the discipline. With some exceptions, focus has been placed on questions of resource allocation and efficiency, areas in which it was felt that relatively "value free" statements could be made. Studies of the personal distribution of income have been made, but the distribution of income is usually presented as an outcome of the economic system, with little said about the desirability of one distribution over another, though perhaps with the tacit understanding that a more equitable distribution was "better" than a less equitable one on the basis of humanitarian concerns. Since changes in income distribution are generally perceived as situations in which some people are made better off and others worse off, however, it has always been difficult to lend any "scientific" rigor to a ranking of distributions. One had to admit that it is operationally impossible to measure in any meaningful way the gains and losses actually experienced by different people, and thus be able to determine whether the sum of total happiness had been increased or decreased by the redistribution.

To the extent that the distribution of income has been seen to have a causal role in determining economic variables, as distinct from being determined by them, that role lay in the interrelationship between the distribution of income on the one hand and the savings rate on the other. The savings rate in turn was a primary determinant of the growth rate of output. This view of economic growth has its origins in the work of the classical economists who argued that it was the entrepreneurial class, whose income was derived from profits, that did most of the saving and investing in an economy. Laborers were too poor to have any income left over for saving after meeting the needs of subsistence. The rentier class indulged in ostentatious living and also saved little. The key to rapid expansion of

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productive capacity, output, and employment was to maximize the share of total income that accrued to the entrepreneurial class. Greater distributional equity, which would increase the incomes of the poor at the expense of this class, would reduce savings and hence the growth of output. There was, then, a trade-off. Greater inequity today would be rewarded by greater output tomorrow; greater equity today would be purchased at the cost of a smaller national income tomorrow. Classical economists never considered the possibility of a trade-off between output and employment. For them, maximum output was consistent with, and indeed, equivalent to a situation of maximum employment.

This model of economic growth is a very simplified one, which leaves out many other important variables determining the interrelationships among output, employment, and distributional equity. In particular, it focuses only on the interrelationship between income distribution and savings and between savings and the growth rate of output. But the growth rate of output is also determined by the incremental capital output ratio (the amount of investment required to expand by one dollar) and the rate of technological change. Also, since a large part of the capital goods needed for growth must be imported from the more advanced countries that have already developed the capacity to produce these goods, the growth rate of output will be influenced by the ability to export and the extent to which foreign exchange resources are used to finance imports of investment goods rather than consumer goods.

Similarly, the rate of growth and the skill structure of employment are not simple functions of the rate of growth of output, but depend on the composition of that growth, the type of bias in new technologies being introduced, and the extent to which labor can be substituted for capital in each sector of the economy. Some industries are more labor-intensive than others; some use relatively more skilled labor, others more unskilled labor. Finally, some industries have access to labor-saving technology; in other cases, new technology may have a more capital-saving basis.

The classical model did not explore the possibility that different growth strategies, defined in accordance with those sectors and industries which grew the most quickly, might have different incremental capital output ratios, different levels and biases of technological change, different effects on employment, different levels of exports, and different levels of imports of consumption goods. Nor did they explore the interrelationship between the distribution of income and the pattern of growth that was likely to emerge.

It is quite clear, however, that the pattern of growth will reflect the distribution of income. The pattern of private investment and production will be responsive to the structure of effective demand. If the income distribution is highly skewed in favor of the rich, then resources will be devoted to such items as automobile production, U. S. franchised food establishments,

and other industries producing goods and services needed to sustain the Western-oriented life styles of the high income groups. Exports will be used to finance luxury consumer goods and investment goods needed to produce these consumption goods and services domestically. Despite the fact that much of this production might seem frivolous in comparison to the needs of the majority of the people for a decent diet, shelter, clothing, sanitation, and medical care, the fact is that the poor do not have the income to make their needs felt in the marketplace.

While public investment need not respond to market forces and could be directed toward building the capacity to produce goods and services consumed by low income groups, in general this does not happen. In the first place, the distribution of political power generally reflects the distribution of income. Hence public expenditures often reflect the need for public services by the higher income groups. In addition, however, the pattern of development that is based on the consumption patterns of the higher income groups, a pattern which emphasizes urban development and large-scale industrialization, requires a substantial investment in relatively large capital-intensive projects such as electric power generation and modern transport facilities. In most cases, only the government has access to the quantity of capital necessary to finance these investments or is willing to take on the risks of such projects where the initial investment can be recovered only in a relatively long period of time. After meeting these needs, the government typically has few resources available for other uses.

The argument for neglecting the effects of the changes in the structure of output on the growth of output and employment and on income distribution is that, whatever the structure, benefits will filter down to provide more employment and income to the vast majority of the people. But this view neglects the fact that the extent to which benefits filter down is a function of the pattern of growth. The poor will benefit more when expansion occurs in industries utilizing relatively large amounts of unskilled labor rather than in industries employing relatively small amounts. Further, output will grow at a faster rate when expansion occurs predominantly in industries using relatively little capital and imported inputs. Thus different development strategies can have different effects on employment, equity, and growth of output. An important issue is the extent to which the interrelationship among these variables counteracts or eliminates the classical trade-off between growth and equity.

Aside from the theoretical complications involving the interrelationships among equity, employment, and output, there is the empirical experience of some twenty-five years of concerted development effort by the developing economies and the aid-giving nations. The results of this experience are not encouraging. Large groups in most developing countries have been untouched by the massive efforts undertaken there. Unemployment and income

inequalities have been increasing in many countries, producing political and social pressures that are on a scale unprecedented in world economic development. Therefore, the search for a better understanding of the determinants of employment, output, and distribution has an immediacy independent of scholarly interest. In particular, it is important to know to what extent these goals must be traded off with one another and whether there are alternative policies and strategies that would eliminate or reduce the trade-offs.

THE TRADE-OFF BETWEEN GROWTH AND EQUITY

Before looking at the effect of economic structure on growth and equity, one should consider a more conventional neoclassical argument that focuses on the short-run as distinct from a long-run situation.

One crucial assumption implicit in the classical theory is that all resources are being employed efficiently. It is this assumption which creates the trade-off between equity and output; more income for the poor must be accompanied by less for the rich—hence, less savings and less output growth. As Wayne Thirsk argues in this volume, however, most developing economies are characterized by serious inefficiencies in resource use so that it is, in principle, possible to have both greater equity and more output if those inefficiencies can be reduced. The qualification is important since most of the inefficiencies result from price distortions that benefit the privileged groups—the very groups which, in large measure, control economic policy in these countries. Also, the relaxation of the equity-output trade-off will only be temporary. Once resource use becomes efficient, we will return to the long-run world where the trade-off of the classical theory will hold.

While Thirsk illustrates his argument in the context of the agricultural sector, it applies equally to policies affecting the industrial sector. Consistently one finds that tax, trade, foreign exchange, and commercial policies are constructed so as to subsidize and encourage the use of capital at the expense of the overabundant factor of production, labor. As a result, scarce savings are not efficiently used to maximize the increase in output; and actual output increases are less than they could be, given those resources. The choice of capital-intensive modes of production also leads to relatively less employment generation, given the increase in output, and the new employment often favors the scarce workers with technical skills rather than those in most need, who have few skills.

It should be pointed out that even in a world of unfettered competition the use of labor in developing economies would be discouraged. Even though unskilled labor is greatly underemployed and in some cases unemployed so that, from a social point of view, it has zero cost (its employment would not decrease output in any other part of the economy), individuals will not work and forgo leisure unless they are paid a positive wage. Since employers

must pay this positive wage they will base their hiring decisions on it rather than on the true social cost of zero. Hence they will hire fewer workers than is socially efficient. Also, although labor is abundant, it is truly unskilled labor, lacking even rudimentary experience with an industrial system. Finally, since labor-intensive production processes obviously require a relatively larger supervisory and managerial staff than more capital-intensive modes, the latter are often favored because of the extreme shortage of supervisory personnel.

In addition to these fundamental problems in the functioning of the labor market, there are even more serious difficulties with capital markets, which are rudimentary and fragmented. The undeveloped state of capital markets means that savings cannot be allocated to their most efficient uses. The linkages between savers and investors are so weak that for the most part investors are forced to finance their expenditures from their own savings, and savers are required either to find profitable investment opportunities on their own or to accept rates of interest which are usually less than the rate of inflation. In this type of economy the pattern of investment tends to reflect the interests of the individuals who have investable resources rather than the uses which are most profitable from a social point of view.

Such structural defects in the labor and capital markets are responsive to government policy. Even if policy choices are wisely made, however, improvements in these markets will require a great deal of time. Unfortunately, governments (and aid-giving agencies) do not give sufficient attention to long-run solutions. The immediate economic, political, and social pressures invariably preoccupy the limited resources of time, thought, energy, and money available to policy makers. As a result, very little has been done in the past to rectify the more fundamental problems of the factor markets. Even if attention is given to these problems now, no immediate and large increase in efficiency can be expected in the short run.

Results can be achieved more readily in the short run by removing the distortions in markets and prices that are the result of activist government policy. Resisting pressures to increase urban minimum wage rates will encourage greater employment, equity, and output. The same can be said for the removal of import controls and foreign exchange policies that subsidize the use of capital. While it is clear, however, that, other things being equal, the removal of specific restrictions to the functioning of the market will lead to more employment and output, it is less clear that doing so will increase the degree of distributional equity.

The uncertainty with respect to the effect on equity arises from several sources. First, one must distinguish between changes in the level of income and changes in the distribution of income. Removal of market restrictions may lead to an increase in total income and to an increase in the income of the poor. Yet it may, in addition, increase the income of the wealthy, and

that increase may exceed the increase accruing to the poor. In principle, a situation in which everyone has a higher income even though the distribution of that income is more unequal should be viewed as an improvement. An individual's sense of well-being, however, is often determined by the level of his income *relative* to the incomes of other individuals with whom he has some contact. In other words, distribution *per se* may be an important determinant of whether or not one feels better off. In political terms, the distribution of gains from growth may be even more important than the amount of growth.[1]

A second factor is that there are very few situations in which a change in policy would make everyone better off. Typically, changes in policy will make some people worse off. For example, while it is clear that the removal or reduction of urban minimum wages would help many low income persons by encouraging employers to use more labor, and hence provide more employment, those who initially benefited from the minimum wage would suffer a reduction in income. An overall index of equality may show an increase, but there may be specific individuals who are in, say, the bottom half of the income distribution who would be hurt.

Thirdly, what might be appropriate for the current period may not hold for the longer run. For example, removal of restraints on market behavior could lead to a situation in which equity is immediately improved, but in which there will be even greater inequalities in the future. This situation would occur if the policy change increased the incomes of all groups and if the high income groups either saved a significantly larger portion of their income or received a significantly higher rate of return on their savings than the lower income groups. In the long run the distribution of wealth, and hence the distribution of income from that wealth, will become increasingly unequal. In this example there is no trade-off between output and equity in the short run, but in the longer run a trade-off exists because of the growing disparities in the ownership of wealth. Other examples of this nature are discussed in the next section.

The efficacy of an employment and income distribution policy that focuses on improving the functioning of markets ultimately rests on how easily market distortions can be eliminated and on the response of the economic system to changes in various prices. Some problems associated with improving the operation of markets have been discussed above. They include problems of creating market institutions, and the political problems of disturbing the status quo. The response of decision makers to price changes depends largely on the degree of substitutability of various factors of production in the production process and of various goods and services in the consumption patterns of households. The degree of this substitutability is controversial and eventually must be settled empirically. To some extent, however, the degree to which one can rely on responses to relative price

changes is a political as well as a technical problem. For example, even if firms could substitute labor for capital in large enough quantities to make a significant difference in employment, the extent to which prices of labor and capital might have to change in order to induce firms to undertake this substitution might not be politically feasible. Similar conclusions hold on the consumption side where households are very inflexible in their consumption patterns.

ECONOMIC STRUCTURE, OUTPUT, AND EMPLOYMENT

As seen in the previous section, the conclusion that greater reliance on well-functioning markets will lead to more output, employment, and perhaps equity, needs to be qualified in light of the degree of factor substitutability in production processes. In a world in which there is underutilized labor and limited factor substitutability, and in which different industries use factor inputs in different proportions, the level and rate of growth of output and employment will be a function of the composition of production. Hence the level of employment could be increased in both the short and long run by altering the product mix.

To see this we need a model which interconnects income (or wealth) distribution, consumption patterns, and relative factor intensities. James Land and I have constructed such a model, in which we show that under certain assumptions, other things being equal, it is possible to have more output and employment if income and wealth are more equitably distributed.[2] Our model is based on three assumptions: 1) that low income families tend to consume goods and services which on the average are more labor-intensive (i.e., use more labor and less capital per unit of output) than high income families; 2) that there is limited factor substitutability in the production of goods and services (this assumption permits some range of choices involving different input combinations, but asserts that there are some binding limits on the degree to which labor can replace capital in various production processes); 3) that the marginal propensity to save (the proportion of changes in disposable income that is saved) is the same for all income classes.

The logic of the model can be seen as follows. If we consider two income groups, the rich and the poor; two factors of production, homogeneous labor and capital; two goods, S (simple) goods which are labor-intensive and C goods which are capital-intensive; then, if each income class consumes the same proportion of an increment in income and the rich spend a higher proportion of their income on C goods than do the poor, a transfer of one dollar from rich to poor will increase the level of employment. In addition, the total level of output produced with the given amount of capital increases because the new output mix of C and S goods uses less capital than the previous mix.[3]

In this model there is no trade-off between equity and growth, so long as the marginal propensity to save is the same for the two income classes. Indeed, the pattern of growth that is characterized by a greater degree of equity will permit a higher rate of growth of output and employment, since each increment in output requires a smaller investment in capital.

To the extent that the marginal savings propensity of the rich, following the classical assumption, is greater than that of the poor, the rate of growth in employment and output following redistribution will be smaller than where marginal savings propensities were the same. When savings propensities differ by a relatively large amount, when the difference in the capital intensity of C and S goods is relatively small, or when the relative proportion in which the two income classes consume the two goods is similar, a case develops in which the negative effect on growth rates arising from the reduction in savings more than offsets the positive effect of a reduction in the overall capital intensity of the product mix. These two effects have been labeled the savings effect and the demand-compositional effect.

The relative importance of the two effects must be settled empirically. It is interesting to note, however, that the *a priori* judgments by economists differ considerably. A group of economists, in a report on employment and income distribution in Colombia prepared for the International Labour Organization, placed the major emphasis on the demand-compositional effect, while a model constructed by economists at the World Bank ignores this effect entirely and considers only the savings effect.[4] Empirical work that has been completed to date is discussed below.

In the context of the theoretical model, the transfer of income could be achieved by levying a tax on the rich and transferring the revenue to the poor, or by redistributing the ownership of wealth from the rich to the poor. In practice, of course, it may not be possible or practical to redistribute existing wealth. Rather, policies can be adopted which lead to a different distribution of increments to national wealth. These policies can range from making education and skill acquisition (human capital) more accessible to low income groups, to facilitating changes in the capital market that allow the poor to obtain higher returns on their savings.

Policies that focus on removing price distortions in order to encourage the substitution of labor for capital in production will, of course, increase output and employment. But the extent to which these variables will increase is a function of the possibilities for substitution within each industry. On the other hand, policies that focus on increasing the proportion of wealth held by the poor can lead to increased output and employment even if substitution within each industry is limited, since reliance is placed on shifts in the pattern of consumption and production towards more labor using industries. Furthermore, to the extent that equity is a specific policy objective, that objective is best achieved by the latter type of policy, which focuses

directly on the distribution of wealth, rather than the former, which has a more indirect effect on equity.

To some extent policies designed to influence the distribution of wealth will also serve to stimulate input substitution within firms. For example, import licensing procedures that allocate foreign exchange to large-scale industrialists for the importation of foreign-made machinery clearly discriminate against the small-scale entrepreneur in making it more difficult for him to obtain capital goods. Removal of licensing would permit small-scale firms to expand more rapidly and put more capital in the hands of people who are relatively poor. At the same time large-scale firms will be induced to economize on capital inputs when these are no longer subsidized, and will seek ways of utilizing labor where they might previously have used machinery. Another example is discussed by Huddle and Ho in their paper in this volume. They point out the problems faced by small-scale firms in obtaining credit in a system in which banks, because of restrictions on the interest rates they can charge for loans, necessarily prefer to allocate credit to large enterprises, which pose a smaller risk. Removal of interest rate ceilings would both permit small-scale firms to invest more (by financing the acquisition of new capital goods by bank loans) and induce large firms to use less capital, and more labor, in their production activities.

If policy making and implementation were costless, one obviously would recommend that governments undertake both kinds of policies. Unfortunately, policy development and administration require highly skilled resources. Furthermore, many policy moves will meet with some political opposition, which either limits the application of that policy or requires resources to overcome it. In either case, governments must make choices as to where they will focus their attention. Many will argue, with some justification, that emphasis on market function without a specific focus on income distribution has never been given a fair test. Nonetheless, political pressures in developing countries seem to be pushing policy initiatives towards addressing the equity issue immediately.

EMPIRICAL WORK

While the theoretical model outlined in the previous section shows that greater distributional equity could be consistent with higher growth rates of output and employment, this conclusion rests on several assumptions. These include the assumptions that low income groups tend to consume more labor-intensive goods and services than higher income groups and that the marginal savings propensities of the higher income groups are not significantly higher than those of the lower income groups.

A great deal of research has been completed on comparing the relative labor intensity of consumption patterns of various income classes;[5] relatively

little has been done on measuring differential savings propensities. Conclusions to date tend to support the Land-Soligo hypothesis, that the low income groups tend to consume relatively more of labor-intensive goods and services, although the support is not unequivocal.

The most significant change in expenditure patterns as one moves from low income to high income families is in the proportion of income spent on food. This ratio declines from roughly 50% to 20% for most of the LDCs. If one looks at expenditures from changes in income (marginal expenditure coefficients) the decline is even greater. In some cases the poor will spend as much as 80% of increments to income on food while the richest groups have already achieved an excellent diet and will spend very little extra on food with increases in income.

The importance of the different propensities to consume food lies in the fact that the production of food is much more labor-intensive (requires more labor per unit of output) than many other activities. Hence, when a more egalitarian growth strategy is adopted, the composition of consumption and output shifts in favor of the agricultural sector, producing significant effects on the level of employment of unskilled labor and thus reinforcing the overall equity of the distribution of income.

An unexpected result, however, is that the amount of capital required per unit of agricultural output is not much lower than in other sectors of the economy, so that the shift in output mix does not reduce the aggregate capital-output ratio as much as anticipated. Thus although redistribution has a very large impact on employment, it has a much more modest effect on the growth rate of output.

The apparent paradox of a sector using both more capital and labor than other sectors arises because the overall efficiency of agriculture is extremely low relative to the efficiency of the others.

Improving agricultural efficiency thus becomes a key prerequisite to an income-distribution-oriented growth strategy. New agricultural technologies, such as new high yielding varieties which are more resistant to disease and more responsive to applications of fertilizer and water, are particularly important since they are essentially capital and land saving in nature. With these technologies redistribution would have a much greater impact on both employment and output growth than under traditional technologies.

The proportion of income spent on non-agricultural goods and services also differs among income groups, and changes in the distribution of income will change the relative importance of these in total output. These changes in the non-agricultural output mix, however, tend to have much less effect on total employment or the aggregate capital-output ratio than the shift in output composition towards more agricultural output relative to non-agricultural output.[6]

While many economists have attempted to measure the impact of redistribution on growth via its effect on the aggregate savings rate (the savings effect), their methodology suffers from serious conceptual problems and hence their conclusions must be discounted.

The methodology employed is to take cross section data on family income and expenditure from a household budget survey and to fit a statistical relationship between family income and savings. This relationship is used to estimate the effect of different income distributions on personal savings. It assumes that these data do, in fact, measure the marginal savings propensities of various income classes.

There is a vast literature dealing with the methodological and theoretical problems of measuring savings behavior.[7] Suffice it to say here that, in general, the use of cross section data will tend to overstate the inter-income differences in savings behavior. At this point, the issue of whether there is a negative savings effect of sufficient magnitude to counteract the positive effects on growth of the reduced capital-output ratio (which results from a shift in the composition of output toward the goods and services consumed by the poor) must remain open until further empirical work has been done.

In addition to the usual problems of measuring marginal savings propensities, there is another important issue in the context of the less developed economies. We have already referred above to the fact that capital markets in less developed countries are undeveloped and fragmented so that savers have few profitable opportunities to employ their savings. In most countries the available opportunities consist of holding one's savings in cash or in bank accounts that typically pay a very low nominal rate of interest controlled by law, or investing the funds in some form of real capital (land, human capital, or plant and equipment). Holding cash or bank deposits generally yields a significantly negative rate of return, since the rate of price inflation is very much higher than the nominal interest rates paid on these assets. On the other hand, not all savers have either the interest or the expertise necessary to invest in real (as distinct from financial) assets. The result is that the return to savings and wealth accumulation, and hence the incentive to save, is reduced. Since the lack of profitable savings opportunities affects the lower income groups more than the higher income groups, the lack of a developed and well-functioning capital market will bias savings decisions in a way that reduces the propensity to save by the poor relative to that of the rich. The bias is magnified by a standard convention followed by economists when measuring consumption and savings, which counts the acquisition of consumer durables such as sewing machines, radios, furniture, bicycles, etc. (except houses), as consumption rather than investment. Yet all of these are durable goods that will produce consumption services over a period of several years. That is, these goods, like any investment good, will serve the household over a long period of time and not solely in the year in which the

expenditure is made. The bias is not critical in a developed economy such as the United States where the service income produced by consumer durables is typically small relative to total family income. (An exception is the retired couple whose money income is very small but whose real income is quite satisfactory because of the service income produced by the house, car, and other durables purchased in earlier years.) For less developed countries, the bias is important because the service income is large relative to money income and because the acquisition of such consumer durables is usually the most productive use, given the state of capital markets, for the savings of lower income families. Counting the acquisition of consumer durables as savings (and investment) and increasing the range of assets as well as the real rates of return available to low income groups will increase the measured and real savings of low income groups. These factors further reinforce the conclusion that at this point there is no reason to believe that a negative savings effect is likely to be significant.

SUMMARY

This paper has reviewed the issues regarding the interrelationship between distributional equity and the growth rate of output and employment in developing economies. This issue is one which has been neglected until very recently. Classical economists viewed the relationship in terms of a trade-off. Greater equity reduced the savings rate and hence the growth of output and employment.

Neoclassical economists, with their emphasis on efficient resource allocation, have shown that in the short run at least there need not be a trade-off. Most developing economies have many market distortions, which lead to serious misallocation of resources. By correcting these distortions output *and* employment could be increased. Whether this would always lead to a higher degree of distributional equity as measured by some inequality index is not always certain, but it is clear that the lower income groups as a whole would benefit by having higher real incomes.

More recent models of development have attempted to incorporate income distribution, output, and employment determination more formally. Given certain assumptions about the relative factor intensity of consumption patterns and marginal savings propensities of different income classes, we show that, in contrast to the classical model, greater equity could be consistent with higher growth rates of output and employment. The empirical evidence to date is not definitive but tends to give encouraging support to the assumptions made in the model.

The issues addressed in this paper are of importance to the theoretical economist who is interested in knowing more about the role that income distribution plays in the determination of other economic variables and,

conversely, the variables that in turn determine the distribution of income. The issues also have an important real world immediacy. The problems of poverty and unemployment faced by the developing countries today are unprecedented in history. Because of the ever-growing interdependency of the countries of the world, problems are of concern to the developed nations as well. If, in fact, there is a trade-off between growth and equity, the prospects for solving the problems are bleak, for redistributing today's income will only make tomorrow's problem worse. If the trade-off can be avoided, then there is some cause for hope. Whether the problems can best be faced by focusing on improving the functioning of markets in general or by focusing on policies which serve to increase the proportion of wealth in the hands of the poor, or most likely, some combination of these (since they are by no means independent), is an unsettled question. But at least there are some positive and hopeful alternatives available.

NOTES

1. The political unrest and eventual downfall of the Ayub Khan government in the late 1960s in Pakistan is often contrasted with the relative stability of India. During the 1960s the Pakistan economy grew more rapidly than that of India. The degree of inequality of distribution grew in Pakistan, however, whereas in India the political rhetoric suggests that inequality was reduced. This experience indicates that the degree of equality, at least as perceived by the majority, is more important than growth *per se*.

2. See James W. Land and Ronald Soligo, "Income Distribution, Employment, and Growth in Labor Redundant Economies," Program of Development Studies Discussion Paper no. 9, Rice University, 1971.

3. Because of the index number problem it is not possible to say unambiguously that output increases. Measured in base period prices, however, aggregate output is higher after the income transfer.

4. See International Labour Office, *Towards Full Employment: A Programme for Colombia* (Geneva: International Labour Organization, 1970), pp. 127-136; and Hollis Chenery, Montek S. Ahluwalia, C. L. G. Bell, John H. Duloy, and Richard Jolly, *Redistribution with Growth* (London: Oxford University Press, 1974).

5. Much of this work has been summarized by Soligo in "Consumption Patterns, Factor Usage and the Distribution of Income: A Review of Some Findings," paper presented at the Southern Economic Association Meetings in Atlanta, Georgia, November 1974.

6. Interesting qualifications to this statement arise when one considers the capital and labor required to produce capital goods in addition to what is required to produce consumer goods. This point is discussed at some length in Ronald Soligo, "Factor Intensity of Consumption Patterns, Income Distribution and Employment Growth in Pakistan," Program of Development Studies Discussion Paper 44 (1973), and in "Consumption Patterns, Factor Usage and the Distribution of Income: A Review of Some Findings."

7. For recent surveys of the literature see Raymond F. Mikesell and James E. Zinser, "The Nature of the Savings Function in Developing Countries: A Survey of the Theoretical and Empirical Literature," *Journal of Economic Literature* **5** (March 1973): 1-26; and Robert Ferber, "Consumer Economics, A Survey," *Journal of Economic Literature* **11** (December 1973): 1302-42.